UNITED NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/CCF/AZE/1
30 June 1997

ORIGINAL: ENGLISH

Third regular session 1997
15-19 September 1997, New York
Item 6 of the provisional agenda
UNDP

UNDP: COUNTRY COOPERATION FRAMEWORKS AND RELATED MATTERS

FIRST COUNTRY COOPERATION FRAMEWORK FOR AZERBAIJAN (1997-1999)

CONTENTS

		Paragraphs	Page
INTRODUCTION		1 - 2	2
I.	DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE	3 - 7	2
II.	RESULTS AND LESSONS OF PAST COOPERATION	8 - 9	3
III.	PROPOSED STRATEGY AND THEMATIC AREAS	10 - 26	4
	A. Poverty alleviation in areas affected by conflict through support to the Azerbaijan Reconstruction and Rehabilitation Programme	12 - 18	4
	B. Sustainable livelihoods through regeneration of the Sumgait industrial zone	19 - 23	6
	C. Governance relating to public administration and non-governmental organization participation	24 - 26	7
IV.	MANAGEMENT ARRANGEMENTS	27 - 31	8
Annex.	Resource mobilization target table for Azerbaijan (1997-1999)		10

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INTRODUCTION

1. An interim United Nations office was opened in Baku in 1992, and transformed into a UNDP office in November 1995, sharing common premises with the United Nations Population Fund (UNFPA), the United Nations Children's Fund (UNICEF), the World Food Programme (WFP) and the United Nations Department of Humanitarian Affairs (DHA), under the coordination of the United Nations Resident Coordinator.

2. In July 1993, a short-term country cooperation framework (CCF) for Azerbaijan was formulated, which was then followed by the formulation of a firs UNDP country programme (1994-1996), approved by the UNDP Executive Board in September 1995. The proposed CCF will take into account the experience of the first four years of UNDP and United Nations system operations in Azerbaijan, an continuous consultations with the Government of Azerbaijan and the donor community.

I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE

3. During its 70 years as a republic of the Soviet Union, Azerbaijan's economic role was primarily as a supplier of petroleum, natural gas, capital equipment for the petroleum industry (80 per cent of Soviet demand), and petrochemicals. The Sumgait industrial zone, 35 kilometres from Baku, was designed to be one of the main production areas of the above for the Soviet Union as a whole. Azerbaijan was also an important producer of certain agricultural products, such as grapes, cotton, vegetables, fruit and tobacco. While being one of the poorer republics, its relative economic importance enabled it to enjoy a relatively high level of human development in terms of education, health services, employment and standards of living. However, after independence in August 1991, ties with the Soviet Union were broken and the market for these products was ruptured, largely due to finance trade transactions. As a result, gross domestic product (GDP) fell an average 20 per cent annually from 1992 to 1994, although this rate of decline has since slowed.

4. The situation was aggravated by the occupation by Armenian forces of about 20 per cent of Azerbaijan's territory, including the enclave of Nagorno-Karabakh and the surrounding area. As a result of the conflict between Armenian and Azerbaijani forces in 1992-1993, 20,000 Azerbaijanis lost their lives, and over 900,000 people (13 per cent of the Azerbaijani population) were displaced from Armenia, the Nagorno-Karabakh region and the Azerbaijani areas occupied by Armenian forces, into other areas of Azerbaijan, causing great personal hardship and financial cost to the Government. Substantial material damage was also caused to infrastructure (houses, schools, medical facilities, roads, enterprises, etc.). In 1994, a ceasefire was negotiated, but a formal peace agreement has not yet been signed.

5. The country has thus been faced with a dramatic fall in the standard of living and income levels for the majority of its 7.1 million people. The

situation is exacerbated for internally displaced persons (IDPs) from within Azerbaijan and refugees from Armenia, who have added to the rise in the number of unemployed. The country has also had to maintain a high level of military readiness in the event of a breakdown of the ceasefire. These factors have deprived the government budget of funds for the social sector, such as education, health, social welfare, pensions, etc.).

6. A long-standing lack of concern for the environment has resulted in high levels of pollution, particularly in the Caspian Sea, from oil and natural gas drilling, as well as air and solid waste emissions from the Sumgait industrial region. This man-made environmental crisis will be aggravated by the continued natural rise in the level of the Caspian Sea, if current rates (2.3 metres over the last 17 years) continue. This will affect about 850 kilometres of coastline in Azerbaijan, Russia, Turkmenistan and Kazakstan, and could cause material damage to coastal human settlements, oil drilling and processing infrastructures, industrial and other establishments, resulting in high social and economic costs for all the countries involved.

7. The country has significant potential to respond to the challenges noted above due to its substantial natural resources, particularly oil and natural gas. Foreign interest in oil and gas development has been high, and a number of important exploration and production agreements have been signed with foreign companies and consortia. Improvements in economic indicators have begun to show. While Azerbaijan used to possess a relatively well-developed infrastructure for transport, energy, telecommunications, and industry, this needs substantial modernization and, in particular, adaptation to environmental requirements. Furthermore, while the country possesses a highly skilled workforce, skills need to be adapted to the needs of a growing market economy. The above resources should help Azerbaijan make renewed progress along a path of sustainable human development, for which priority needs to be given to the allocation of resources and capacity-building, and for which the establishment of a social investment fund could be useful.

II. RESULTS AND LESSONS OF PAST COOPERATION

8. Since UNDP operations started in Azerbaijan, a total of 15 projects have been approved and implemented for a total of $3.1 million in critical areas where UNDP has been able to play a lead role in advocacy and resource mobilization. These include support to the reconstruction and rehabilitation of rural areas affected by the Nagorno-Karabakh conflict, and the rehabilitation of the Sumgait industrial complex. In addition, the national human development reports for 1995 and 1996 provided a valuable opportunity for national specialists to reflect on the country's situation from a sustainable human development point of view, and to put forward proposals for an eight-point programme for an eventual sustainable human development strategy. UNDP has also provided short-term assistance in areas such as computer training, labour market surveys, civil aviation planning, and national preparations for international conferences.

9. An important lesson that emerged from past cooperation is the value of active promotion of specific development initiatives, such as the regeneration

of the Sumgait industrial complex and environmental management, and long-term reconstruction and rehabilitation. On the other hand, the difficulties of mobilizing formal cost-sharing, as opposed to parallel inputs, are evident in the low level of cost-sharing committed for Azerbaijan. Furthermore, greater use of the programme approach, through increased emphasis on the formulation of national programmes that provide a stronger conceptual and operational framework for UNDP and donor support, could strengthen linkages between UNDP interventions and improve coordination and resource mobilization.

III. PROPOSED STRATEGY AND THEMATIC AREAS

10. The Government considers that its main priorities are the enhancement of oil extraction, an early and lasting settlement of the Nagorno-Karabakh conflict, poverty alleviation of refugees and IDPs in the context of the reconstruction and rehabilitation of the territories affected by this conflict, and the establishment of a free economic zone in Sumgait.

11. In light of the above, and taking into consideration observations in the first two national human development reports, discussions with the Government and donors, UNDP proposes to concentrate its future cooperation in three main thematic areas:

(a) Poverty alleviation, through support to the relief-to-development continuum in four selected areas of Fizuli, Agdam and Terter, formerly occupied by Armenian forces (60,000 people), and the Autonomous Republic of Nakhichevan (350,000 people);

(b) Sustainable livelihoods in the Sumgait industrial zone, stressing industrial regeneration, investment promotion, employment creation, and tackling environmental problems. With respect to the environment, this should be addressed in the context of wider environmental initiatives at the national and regional (Caspian Sea) levels;

(c) Governance, by strengthening the mechanisms and capacity in areas of public administration related to the above, including the promotion of non-governmental organizations (NGOs) and attention to gender issues.

A. Poverty alleviation in areas affected by conflict through support to the Azerbaijan Reconstruction and Rehabilitation Programme

12. The Government wants to give particular attention to (a) ensuring that the Autonomous Republic of Nakhichevan does not suffer from its isolation resulting from the conflict with Armenia, and can fully exploit its natural and human resources for its own development; and (b) supporting the reintegration of Azerbaijani IDPs and refugees into more permanent settlements in the areas of Fizuli, Agdam and Terter.

13. In this connection, a particular concern of both the Government and the international community has been the need for support to move more rapidly from

the phase of humanitarian assistance targeted at IDPs and refugees, to one of longer-term reintegration and development. Up until now, substantial assistance has been received from multilateral, bilateral and NGO donors, with the collaboration of the United Nations Department of Humanitarian Affairs (DHA). In the next phase, attention needs to be given to the preparation and implementation of a longer-term reconstruction and rehabilitation programme at both the national and local levels, to provide a framework for future support and mobilization of the required resources.

14. In close coordination with the Government and the World Bank, UNDP initiated the organization of a longer-term reconstruction and rehabilitation programme for areas affected by conflict with target for resource assignment from the core (TRAC) 1.1.3 funds. As a result, in March 1997, a joint World Bank/UNDP mission identified a potential pilot reconstruction project to be considered for a future loan of about $25 million, focused on the liberated but destroyed districts (rayons) of Fizuli (Araz region), Gazakh, Terter, northern Agdam, and of Sadarak (Nakhichevan Autonomous Republic).

15. UNDP has thus been requested to focus its attention on these four areas, in the context of support to an Azerbaijan Reconstruction and Rehabilitation Programme (ARRP). In the first instance, attention will be given to preparing an appropriate poverty alleviation strategy, financed under the UNDP Poverty Strategy Initiative. Secondly, support will be given to institutional strengthening of the newly established Azerbaijan Reconstruction and Rehabilitation Agency (ARRA), which will be responsible for assisting the relevant local authorities in implementing ARRP activities in each area.

Support to area development programmes: Fizuli, Agdam and Terter

16. Support to Fizuli, Agdam and Terter will be provided on the basis of area-specific needs, under the broader ARRP, and be consistent with the approach pursued in the Nakhichevan region. Follow-up UNDP assistance totalling about $2.1 million is envisaged from both TRAC 1.1.1 and 1.1.3 (humanitarian and emergency-related) resources to build on an earlier UNDP project by supporting ARRP activities assisting about 60,000 returnees to the Fizuli and Agdam areas. The aim of the above is to strengthen the capacity of local communities in the reconstruction of infrastructure related to housing, water, school and health facilities, telecommunications, power, and land-mine removal, as well as to facilitate the socio-economic reintegration of IDPs, etc. UNDP assistance will be provided in the context of wider support furnished by the World Bank, the Office of the United Nations High Commissioner for Refugees (UNHCR), WFP, DHA, UNICEF, the European Union, the Islamic Development Bank, the International Committee of the Red Cross, and NGOs including American NGOs financed by the United States Agency for International Development.

17. The intended impact of UNDP assistance will be strengthened national institutions and trained staff in the above two areas of intervention; the achievement of concrete results in terms of infrastructural rehabilitation in the project areas; greater involvement of local populations and communities in reconstruction and rehabilitation activities; and increased employment, incomes, personal security and sustainable livelihoods.

Support to area development programmes: Nakhichevan Autonomous Republic

18. In the context of activities foreseen in the Nakhichevan component of the ARRP, UNDP will contribute to a number of activities in this region, particularly in Sadarak, including through the development of a Poverty Strategy Initiative for Nakhichevan Autonomous Republic. In the context of preparing a national poverty alleviation strategy, UNDP, under its UNDP Poverty Strategy Initiative, will assist in a joint project with bilateral donors and international NGOs, in formulation of a regional poverty alleviation strategy for Nakhichevan, which will also serve as a regional development programme. This programme will take into account ongoing capacity-building initiatives with the Ministry of Labour and Social Protection in support of programmes for self-employment and income generation, linked to a "business incubator" project to stimulate the establishment of new SMEs.

B. Sustainable livelihoods through regeneration of the Sumgait industrial zone

19. The industrial zone of Sumgait, 35 kilometres north of Baku, represents a microcosm of the challenges facing an economy in transition in general, and of Azerbaijan in particular. Conceived in the 1940s as a centre for heavy industry serving the Soviet Union, Sumgait experienced a dramatic fall in output as a result of the collapse of the Soviet State and of the dismantling of previous economic ties, leaving a large industrial void. Furthermore, most of the technologies used in industrial enterprises were outdated, energy inefficient and polluting.

20. While the disintegration of the Soviet market was catastrophic for industrial development in Azerbaijan and the Sumgait region in particular, paradoxically it had the beneficial consequence of alleviating the chronic pollution previously caused by petrochemical, chemical, aluminium and pipe-rolling plants. Sumgait today has a productive infrastructure without markets, lacking the necessary technology to compete with other producers, and with an unacceptable legacy of environmental and pollution problems. It is home to about 275,000 people, many of whom are unemployed, in addition to the 60,000 IDPs who fled to Sumgait from Nagorno-Karabakh and Armenia conflicts, making the regeneration of industry and the provision of jobs absolutely critical.

21. In 1994, UNDP offered to assist in the quest for solutions, focusing on three main areas: (a) a review of new economic possibilities, in particular the establishment of a Special Economic Zone (SEZ); (b) a review of environmental rehabilitation requirements; and (c) investment promotion activities. The result of this work has received the wholehearted support of the Government and brought new hope into the lives of the people of Sumgait. It has succeeded in identifying the action needed to establish the judicial and/or economic policies that can lead to longer-term solutions to the industrial challenges of the area.

22. UNDP proposes continued assistance to the Sumgait Industrial and Environmental Regeneration Programme, focused on:

(a) Industrial regeneration, using the UNDP/United Nations Industrial Development Organization (UNIDO) diagnostic analysis of the industrial structure of the region ("Azerbaijan, Sumgait - The City of Tomorrow"), and the development concept of an SEZ supported by the SEZ development agency, the Sumgait Investment Centre, in order to encourage foreign and local investments and the Sumgait Services Centre in support of business promotion;

(b) Environmental rehabilitation, through the Sumgait Environment Centre, which will operate as an environmental information and technology centre, including the preparation of project ideas for consideration by the donor community, and a health information system component; and

(c) Environmental management, through ongoing or planned projects relating to (i) the environmental sustainability of Sumgait; (ii) national capacity-building in environmental management; (iii) a Caspian Sea regional environmental management project, with the World Bank, the Global Environment Facility (GEF), the European Union, and the United Nations Environment Programme (UNEP); and (iv) environmental planning, through the preparation of a periodically published State of the Environment and involvement in the preparation, with World Bank assistance, of a National Environmental Action Programme.

23. The impact of UNDP support will be a strengthened government capacity to stimulate the rehabilitation and reconstruction of the Sumgait industrial complex, to reduce environmental pollution, to increase investment and occupancy by both foreign and national investors, and a restored confidence in the ability of Sumgait to play a significant role in the country's future economic development, and in an environmentally friendly way.

C. Governance relating to public administration and non-governmental organization participation

24. The main concerns that will be addressed in this thematic area are (a) strengthening of government institutions; (b) redefinition of the traditional central role of government by the promotion of greater popular participation in governance, through the democratic process, and a greater role of NGOs in Azerbaijani society; (c) strengthening the role of women in the country's development; and (d) encouraging reflection on the use of future petroleum revenues from the point of view of sustainable human development.

25. UNDP proposes to assist in:

(a) Human development advocacy through (i) annual national human development reports that will engage an ever-widening debate on important issues; (ii) emphasizing gender issues through a project to be linked to the regional gender-in-development project, which will support the establishment of a women's unit in the Cabinet of Ministers and a national gender-in-development programme aimed at advocating and incorporating gender issues in all sectors, and in promoting gender initiatives in the country as a whole; and (iii) supporting activities within the framework of the Joint United Nations Programme on HIV/AIDS (UNAIDS);

(b) Public administration capacity-building and reform through improvement of government efficiency and responsiveness. The current rapid, accelerating political, economic and social changes create enormous challenges for Azerbaijani political and governmental institutions. The Government and UNDP intend to ensure that conducive policy environments and practices be in place for achieving sustainable human development;

(c) The non-governmental sector through capacity-building of NGOs/ community-based organizations (CBOs) focusing on support to the establishment of an NGO resource centre and an association of NGOs in Azerbaijan, education, and advocacy, in close coordination with DHA.

26. The expected impact of UNDP assistance in the above areas will vary according to the theme, but in general will be measured through indicators of increased capacity, trained human resources, legislation, implementation of work plans and project activities, etc.

IV. MANAGEMENT ARRANGEMENTS

27. Execution and implementation. National execution will continue to be the principal modality for executing UNDP-assisted projects in Azerbaijan, although the services of United Nations agencies for certain projects may be required. Further training on the administrative modalities for national execution is envisaged. Linkages between UNDP regional projects (relating to democracy, governance and participation; gender-in-development; small- and medium-scale enterprise promotion; external resources management; environment; and poverty alleviation), and those of other major donors will be investigated and encouraged. Emphasis will be placed on implementing the programme approach, particularly in connection with the ARRP and the Sumgait Regeneration Programme (SRP).

28. Monitoring, review and reporting. All projects will be subject to normal UNDP monitoring and evaluation procedures, including progress and technical reports, meetings and visits. Particular attention will be given to establishing benchmarks and success criteria for UNDP support. These will include a review of the impact of UNDP support in the thematic areas. The institutionalization of a local programme review and advisory committee made up of government and UNDP representatives is foreseen.

29. Coordination. UNDP will assist the Government in its coordination efforts, in the organization of United Nations system coordination, and in the organization of theme groups to promote exchange of information among donors and within the Government in each of the areas where UNDP assistance is being provided.

30. Resource mobilization. While substantial co-financing from different donors has been achieved, particularly for the reconstruction and Sumgait programmes, little additional non-core-resources have been mobilized to date through UNDP. It is thus proposed that UNDP core resources be used to mobilize significant additional resources in support of national programme objectives. Tentative cost-sharing targets of about $25 million for activities in the three

main thematic areas are envisaged (see the resource mobilization target table in annex), but it is hoped that in due course UNDP core resources will be more than matched by cost-sharing contributions. These would be complemented by future funding from sustainable development funds (e.g., GEF, Capacity 21), and other funds (e.g., the Poverty Strategy Initiative, UNAIDS, the United Nations International Drug Control Programme), including a potential Azerbaijan Social Investment Trust Fund and Environmental Trust Fund. UNDP intends to fully utilize all available resource mobilization mechanisms. With respect to government cost-sharing, this may be provided through project cost-sharing, and the use of grants and loans, particularly from the World Bank and the European Union. The above brings the total potential available funds to an estimated $20 million.

31. Public information and media strategy. In the context of a future United Nations system information strategy, UNDP, in close cooperation with the United Nations Information Centre and the Government, will assist in media distribution of relevant United Nations advocacy and public information materials. UNDP and the United Nations Department of Public Information will have the task of developing innovative and productive ways to reach out to the public with the evolving message of the United Nations.

Annex

RESOURCE MOBILIZATION TARGET TABLE FOR AZERBAIJAN (1997-1999)

(In thousands of United States dollars)

Source	Amount	Comments
UNDP CORE FUNDS		
Estimated IPF carry-over	653	
TRAC 1.1.1	6 097	Assigned immediately to country.
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	This range of percentages is presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
TRAC 1.1.3	2 000	
SPPD/STS	210	
Subtotal	8 960[a]	
NON-CORE FUNDS		
Government cost-sharing	5 000	Subject to confirmation on basis of matching funds.
Sustainable development funds	350 of which:	
GEF	200	
Capacity 21	150	
Third-party cost-sharing	20 000	
Funds, trust funds and other	1 150 of which:	
Poverty Strategy Initiative	150	
Sumgait Environment Trust Fund	1 000	
Subtotal	26 500	
GRAND TOTAL	35 460[a]	

[a] Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: GEF = Global Environment Facility; IPF = indicative planning figure; SPPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignment from the core.